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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

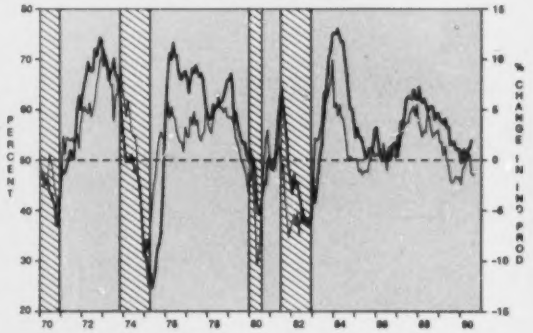
Marking Time

While the direction of the world's financial markets has recently pivoted around investor perceptions of the likelihood of Middle East hostilities, the U.S. debt and equity markets have also had to wrestle with something else, namely, the timing of the next easing of monetary policy. It could be a matter of days, rather than weeks. For notwithstanding the highly uncertain outlook for oil prices, the tenuous position of the dollar in the foreign exchange markets and the conflicting press reports regarding the future direction of monetary policy, the chronic lethargy plaguing large chunks of the economy will soon force the central bank's hand. Although the Federal Reserve would probably prefer to delay any monetary policy move until after the Mideast crisis is resolved, marking time is a policy luxury which the economy can ill afford, especially when you consider such glaring symptoms of economic weakness as the deteriorating health of manufacturing, the rapid erosion of consumer confidence and the mounting toll of business failures.

Even a cursory scan of the business horizon cannot help but turn up a plethora of disappointingly downbeat economic surveys and statistics. Last week, for example, the National Association of Purchasing Management released the results of its August survey of the nation's industrial purchasing agents. If the outcome contained few surprises, it largely reaffirmed the prevailing view that the economic outlook is darkening. For the second consecutive month, more firms than not reported weaker business conditions, with particularly large declines reported in production and employment levels. Production levels have, in fact, been falling since May, while manufacturing employment seemingly cannot find bottom. This survey has been reporting factory job losses for 18 straight months; in August, the attrition of factory jobs apparently accelerated.

Nor was this survey immune from the impact of developments in the Mideast, most of which were negative. For one thing, prices jumped sharply. For another, in the wake of rising prices, some industries started to take countermeasures to avoid future price increases by stepping up orders at current prices and selectively adding to inventories. For this reason, supplier delivery schedules—which are closely watched by the Fed for signs of emerging bottlenecks—took a bit longer in August than in July. But, other than the notable exception of export orders, bright spots were few and far between in industrial America last month, and the malaise is likely to persist. As shown in the chart, trends in the purchasing managers' survey often provide a reliable guide to the direction of industrial production. At this juncture, both are heading south.

12-MONTH PERCENT CHANGE IN INDUSTRIAL PRODUCTION (THICK) VS. PURCHASING MANAGERS' COMPOSITE DIFFUSION INDEX (THINK)



Sources: Commerce Department; Federal Reserve Board

A Nervous Consumer

One might reasonably argue that this is just one more survey highlighting the weakness of non-export-related manufacturing. As such, it hardly offers fresh insights into the state of the economy: The 20 percent plunge in factory operating earnings over the past five quarters tells it better, succinctly encapsulating the travail of domestic industry. But what is new is the unraveling of consumer confidence which has accompanied recent Mideast developments. Rising oil prices and lurking supply disruptions have apparently reminded most people of the oil "shocks" of the 1970s and the business downturns which quickly followed. According to the

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Conference Board, their index of consumer confidence, which had been trending slightly lower since March, fell by a hefty 18 points in August. Not only was this tumble one of the biggest on record, it was larger than the drop which followed the October 1987 stock market plunge. It also brought confidence down to a level not far from that which has preceded the past two recessions.

Since the key to the near-term economic outlook may be the rapidity with which consumer confidence is repaired, as was done within two months of October 1987, a prudent person might start to batten down the hatches. For the consumer had several good reasons to be nervous even prior to the hike in energy prices, and the associated diversion of discretionary spending power that has resulted.

In marked contrast to three years ago, jobs are harder to come by. In August, private-sector payroll employment fell by 12,000 persons, bringing the three-month average gain to just 53,000 persons. In the fourth quarter of 1987, the situation was far different. Jobs were plentiful, and private payroll employment was chalking up average monthly gains of better than

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/22/90)	212,926	- 913	- 7,014
New York City (8/29/90)	38,128	- 515	- 4,237
Commercial Paper (8/29/90)	545,876	- 1,996	+ 32,855

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/22/90)	319,699	- 2,071	+ 3,107
New York City (8/29/90)	58,287	- 709	+ 294

Total Loans and Leases Gross Adjus

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/22/90)	1,024,918	- 3,956	+ 52,384
New York City (8/29/90)	183,339	- 5,337	+ 7,288

Financial Markets

	Friday 9/7/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.62%	+ .03	- .41
180-Day Bills†	7.72	- .02	- .49
Longest Bills†	7.74	- .02	- .49
Recent Issues:			
8¼s 8/31/92	8.02	- .04	
8½s 6/30/94	8.35	- .05	
8¾s 8/15/00	8.79	- .05	
8¾s 8/15/20	8.91	- .07	
Municipals:			
Bond Buyer—20 Bond Index* (9/6/90)	7.41%	- .06	+ .26
Blue List Total ($ Million)	$ 806	- $111	- $ 553
30-Day Visible Supply ($ Million)	$3,233	+ $770	- $ 129
Total	$4,039	+ $659	- $ 424
Corporates:			
Moody's Aa Composite (9/6/90)	9.71	- .05	+ .50
30-Day Visible Supply ($ Million)	$ 275	- $220	- $4,106
Stocks:			
Dow-Jones Averages:			
Industrials	2,619.55	+ 5.19	- 89.99
Transportation	908.28	+ 6.84	- 565.05
Utilities	200.90	+ 4.97	- 15.08
65 Stocks	910.46	+ 6.67	- 174.01
N.Y.S.E. Composite Index	177.51	+ .54	- 16.44
N.Y.S.E. Avg. Daily Vol. for Week (000's)	115,878	- 12,004	- 39,749

*34% Taxable equivalent 11.23%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/7/90	Week Ago
Overnight	8.13%	7.94%
1 month	8.00	7.94
3 month	8.00	7.94
6 month	8.00	8.00
1 year	8.13	8.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/7/90)	Currency Per U.S. $	Week Ago
Belgium	32.06	32.20
Canada	1.1652	1.1547
France	5.2250	5.2580
Germany	1.5600	1.5673
Italy	1163.70	1163.00
Japan	140.37	143.40
Mexico	2878.60	2873.00
Netherlands	1.7575	1.7658
South Korea	707.65	705.87
Switzerland	1.3050	1.2970
Taiwan	26.90	26.89
U.K.*	1.8962	1.8915

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/7/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.3%	-2.2%

360,000 persons. So, too, business failures are now soaring, posing an additional threat to job and income security. And, as if this wasn't enough, household wealth is being battered by the combination of soaring debt loads and slumping real estate values.

Time For Lower Interest Rates

In this environment, the cautious stance of the consumer is understandable. It is harder to say the same about the stance of monetary policy. The widely anticipated easing of monetary policy has so far been postponed until a better reading of the oil price outlook emerges, notwithstanding the spreading economic malaise and multiplying signs of an intensifying credit crunch. Although the Fed does seem to want to reduce interest rates—at least judging by its policy-setting Open Market Committee minutes—this inclination has yet to translate into any meaningful rate decline. This hesitancy can primarily be explained by fears of an adverse bond market reaction, as occurred twice in the past eight months. Yet, the stakes seem higher now—and it's about time that the dog wagged the tail, rather than the other way around. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/5/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	244.091	+ 3.853	+19.084
Loans to Depository Inst.	.767	+ .256	+ .256
Float	.167	- .695	- .812
Total Reserve Bank Credit	284.970	+ 4.608	+26.692
Treasury Deposits with Federal Reserve Banks	5.368	+ .149	+ .549
Currency in Circulation	273.114	+ 2.348	+23 479
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	235.236	+ .692	- 5.452
Member Bank Reserves:	**9/5/90**		
Total Reserves Held	58.632	- 1.168	+ .694
Excess (Deficiency)	.848	- .056	- .111
Net Free Reserves	.217	+ .399	- .226
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (8/27/90)	815.4	+ 5.1	+ 4.5
M2 (8/27/90)	3,304.7	+ 4.4	+ 4.9
M3 (8/27/90)	4,091.3	+ 3.0	+ 1.9
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/7/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.40%	7.36%	7.26%
* Federal Agencies	7.91	7.95	8.05
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.71	8.93	9.09
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.00	8.00	8.00

‡ Finance Company Paper–Prime

5- 14 days	7.96%
15- 29 days	7.50
30- 59 days	7.83
60- 89 days	7.70
90-179 days	7.63
180-239 days	7.50
240-270 days	7.50

‡* Bankers' Acceptances

Oct.	7.90%
Nov.	7.83
Dec.	7.74
Jan.	7.74
Feb.	7.68
Mar.	7.64

‡ Industrial Paper–Prime

30- 89 days	7.95%
90-120 days	7.77

†Federal Funds Effective Rate 7.94%

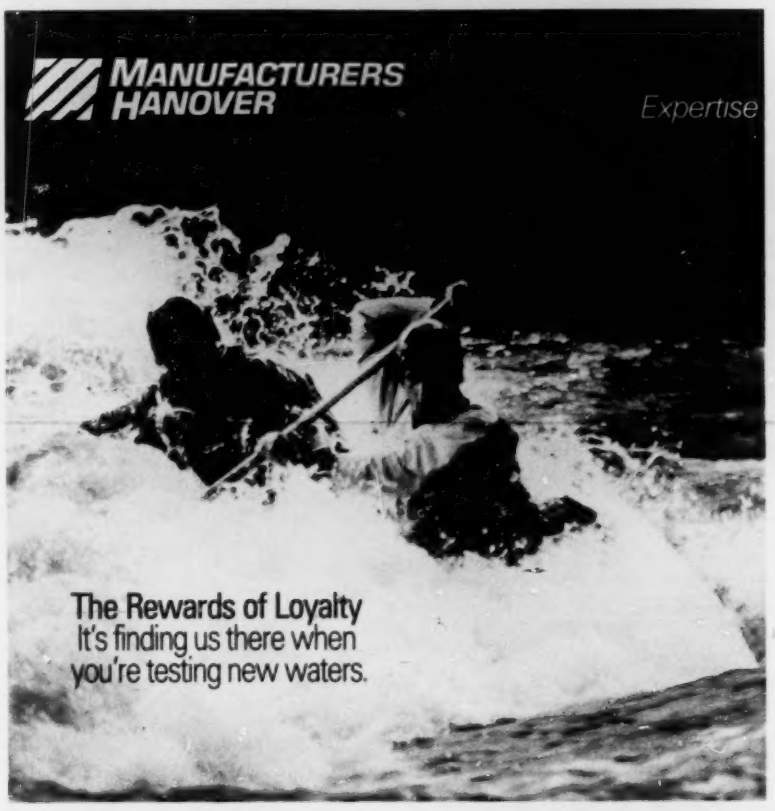
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,452	$ 5,375	$ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,163	$ 4,151	$ 4,112
Percent Change, Annual Rate	2nd Q'90	1.2	1.7	1.6
Change in Consumer Prices*	Jul '90	4.8 %	6.0%	3.6%
Change in MH Cost of Living Index*	Jul '90	6.0 %	6.0%	3.6%
Change in Producer Prices*	Jul '90	- 1.2%	2.4%	- 4.8%
Civilian Employment (Thousands of Persons) †	Aug '90n	117,658	117,953	117,550
Unemployment as % of Civilian Labor Force †	Aug '90n	5.6%	5.5%	5.3%
Personal Income*	Jul '90n	$ 4,672	$ 4,646r	$ 4,398
Leading Indicators Composite Index (1967=100) †	Jul '90n	146.1	146.1r	144.1
Industrial Production Index (1977=100) †	Jul '90	109.9	109.9	107.8
Net Change in Consumer Installment Credit †	Jun '90	$ 0.46	$ 3.65	$ 1.63
U.S. Merchandise Trade Balance †	Jun '90	- $ 5.07	- $ 7.77	- $ 7.95
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	Jul '90	1,148	1,179	1,424
New Construction Expenditures*	Jul '90n	$ 442.2	$ 440.4r	$ 429.0
Total Business Inventories †	Jun '90	$ 797.3	$ 800.4	$ 782.6
Total Business Sales †	Jun '90	$ 544.4	$ 538.9	$ 520.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. e-Anticipated.



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